

Eisai Co., Ltd. (“the Company”) and its affiliates (collectively referred to as “the Group”)

Fiscal year ended March 31, 2021

Notes to Consolidated Financial Statements (Income taxes)

(1) Income taxes

Breakdown of income taxes

(Unit: Millions of Yen)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020
Income taxes – current (Note 1) (Note 2)	12,069	3,938
Income taxes – deferred	(2,001)	1,659
Total	10,068	5,596

(Note 1) For the fiscal year ended March 31, 2020, Eisai Corporation of North America, the Company’s consolidated subsidiary in the U.S., paid the Company ¥54,514 million as return of its paid-in capital, in order to resolve cash imbalance between Japan and the U.S. in the Group. As a result, a decrease in tax expenses of ¥23,297 million was recorded due to the recognition of taxable items such as capital losses for the Company.

(Note 2) Movements of liabilities due to valuation of uncertain tax positions are included in “income taxes – current” in each fiscal year.

Reconciliation between the statutory tax rate and the effective tax rate

The effective tax rate represents ratio of income taxes to profit before income taxes. The Company has been mainly imposed corporate income taxes, inhabitant taxes and business taxes, and the statutory tax rate based on these items is 30.5%. Overseas subsidiaries have been imposed corporate income taxes in each jurisdiction.

(Unit: %)

	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020
Statutory tax rate	30.5	30.5
Tax credit for experiment and research expenses	(5.5)	(5.2)
Tax rate differences in subsidiaries	(4.8)	(0.0)
Incomes taxes in the past	(2.1)	(0.2)
Business taxes – value-added component	1.1	0.5
Expenses not permanently deductible for income tax purposes, such as entertainment expenses	1.1	1.0
Uncertain tax positions	0.5	(5.7)
Valuation allowances	(0.5)	0.7
Repayment of paid-in capital from a subsidiary in the United States	—	(18.2)
Others	(1.0)	0.8
Effective tax rate	19.2	4.4

(2) Deferred tax assets and deferred tax liabilities

Breakdown of deferred tax assets and deferred tax liabilities

For the fiscal year ended March 31, 2021

(Unit: Millions of Yen)

	As of April 1, 2020	Recognized through P&L	Recognized through OCI	As of March 31, 2021
Deferred tax assets				
Entrusted R&D expenses	13,974	2,360	—	16,334
Tax credit for experiment and research expenses	27,323	1,372	—	28,696
Retirement benefit liabilities	2,300	2,288	(1,401)	3,187
Depreciation and amortization	1,519	998	—	2,517
Accrued bonuses	3,932	(839)	—	3,093
Deferred charges for tax purposes	9,470	349	—	9,818
Unrealized gain on inventories	15,664	(2,593)	—	13,071
Net operating loss carryforward	1,216	(301)	—	914
Others	18,637	(1,175)	(54)	17,408
Sub-total	94,035	2,459	(1,455)	95,039
Deferred tax liabilities				
Intangible assets	18,957	96	—	19,054
Depreciation and amortization	2,622	(749)	—	1,873
Financial assets measured at fair value through OCI	5,585	—	965	6,551
Others	1,001	149	—	1,150
Sub-total	28,165	(503)	965	28,627
Balance (Note 1)	65,870	2,962	(2,420)	66,412

(Note 1) The difference between the balance recognized through P&L and income taxes – deferred is mainly due to movements of liabilities due to valuation of uncertain tax positions which are offset with deferred tax assets in consolidated statement of financial position and included in income taxes – current in consolidated statement of income, and foreign exchange fluctuations.

For the fiscal year ended March 31, 2020

(Unit: Millions of Yen)

	As of April 1, 2019	Recognized through P&L	Recognized through OCI	As of March 31, 2020
Deferred tax assets				
Entrusted R&D expenses	14,237	(263)	—	13,974
Tax credit for experiment and research expenses (Note 1)	19,156	8,167	—	27,323
Retirement benefit liabilities	4,330	(3,307)	1,276	2,300
Depreciation and amortization	1,442	77	—	1,519
Accrued bonuses	4,214	(283)	—	3,932
Deferred charges for tax purposes	2,848	6,622	—	9,470
Unrealized gain on inventories	9,682	5,983	—	15,664
Net operating loss carryforward	1,706	(490)	—	1,216
Others	22,764	(4,028)	(99)	18,637
Sub-total	80,380	12,478	1,177	94,035
Deferred tax liabilities				
Intangible assets	13,652	5,305	—	18,957
Depreciation and amortization	1,802	819	—	2,622
Financial assets measured at fair value through OCI	9,075	—	(3,490)	5,585
Others	1,078	(77)	—	1,001
Sub-total	25,608	6,047	(3,490)	28,165
Balance (Note 2)	54,772	6,431	4,667	65,870

(Note 1) For the fiscal year ended March 31, 2020, the Group has retrospectively applied IFRIC 23 “Uncertainty over Income Tax Treatments” (“this Interpretation”). In accordance with the transition method of this Interpretation, the Group elects to apply the method to recognize the cumulative effects of the initial application of this Interpretation at the date of initial application (April 1, 2019). As a result, deferred tax assets decreased by ¥13,570 million in the consolidated statement of financial position at the date of initial application.

(Note 2) The difference between the balance of recognized through P&L and income taxes – deferred is mainly due to movements of liabilities due to valuation of uncertain tax positions which are offset with deferred tax assets in consolidated statement of financial position and included in income taxes – current in consolidated statement of income, and foreign exchange fluctuations.

Deferred tax assets and deferred tax liabilities

(Unit: Millions of Yen)

	As of March 31, 2021	As of March 31, 2020
Deferred tax assets	66,923	66,438
Deferred tax liabilities	511	569
Balance	66,412	65,870

(3) Deferred tax assets not recognized in the consolidated financial statements

The Group does not recognize deferred tax assets when it is not likely to arise sufficient taxable income in the future to utilize the benefit.

Breakdown of deferred tax assets not recognized in the consolidated financial statements

(Unit: Millions of Yen)

	As of March 31, 2021	As of March 31, 2020
Deductible temporary difference	3,910	4,040
Net operating loss carryforward (Note 1)	10,752	9,715
Tax credit carryforward (Note 2)	5,304	5,502
Total	19,965	19,257

(Note 1) Breakdown by timing of expiration of net operating loss carryforward on which deferred tax assets are not recognized in the consolidated statements

(Unit: Millions of Yen)

	As of March 31, 2021	As of March 31, 2020
Within one year	—	—
Over one year, within five years	677	326
Over five years	10,074	9,389
Total	10,752	9,715

(Note 2) Breakdown by timing of expiration of tax credit carryforward on which deferred tax assets are not recognized in the consolidated statements

(Unit: Millions of Yen)

	As of March 31, 2021	As of March 31, 2020
Within one year	90	134
Over one year, within five years	46	204
Over five years	5,168	5,164
Total	5,304	5,502

(4) Temporary differences regarding investments in subsidiaries on which deferred tax liabilities are not recognized in the consolidated statement

For the fiscal year ended March 31, 2021, the amount of temporary differences regarding investments in subsidiaries on which deferred tax liabilities are not recognized in the consolidated statements is ¥333,038 million (¥285,551 million for the fiscal year ended March 31, 2020). The Group does not recognize deferred tax liabilities on the temporary differences when the Company can control the timing of dissolution of the temporary differences and it is likely not to be dissolved within foreseeable period.